

1 June 1981

MEMORANDUM FOR:

STAT

NIC Analytic Group

SUBJECT: Recent Economic History: Golden Era
and All That

1. Some weekend reflection on our Friday afternoon discussion has produced the attached chart. It is conceptual only and does not purport to represent real recent history except for treating the year 1974 as an anomalous discontinuity.

2. The section labelled XX65-73 represents stable growth at 1% per quarter or 4.06% per year, modified by a regular 4-year cycle with a 10% variation between peak and trough. Any measurement at corresponding points in the cycle--peak to peak, trough to trough, or average to average--will show 4% annual growth.

3. The crisis or discontinuity at the year 74 is assumed to interrupt the cycle at its peak and to reduce output by 10%, after which the cycle resumes and the 4% annual growth resumes.

4. If growth is now measured from the peak in 1Q74 to the peak in 1Q79, it shows an apparent annual growth rate of 1.2%, compared to the pre-crisis rate of 4%. That parallels the conventional wisdom concerned the 1970s.

5. But suppose the measurement is taken trough to trough, so that the crisis year is attached to the previous period instead of the subsequent period. From 3Q71 to 4Q74 shows an annual growth rate of only 2.5%, and the longer period from 3Q67 to 4Q74 shows 3.4%. On the other hand, from 3Q76 to 3Q80 is back to the standard 4% rate.

6. The lesson from this exercise is that contrary conclusions can be drawn from the same record, depending on whether the anomalous year is treated as part of the past or part of the future. Perhaps it would be best to treat it as unique, separate from both the earlier and later periods.

SUBJECT: Recent Economic History: Golden Era
and All That

7. One may ask whether there is any practical reality to the notion of that kind of discontinuity. In a small economy, it might be produced by natural disaster, a wave of strikes, a price break in the principal product, or a limited war. In a large economy or group of economies, might it be produced by a quadrupling of the price of oil?

STAT

ATTN:
n/n

cc: D/OER
Maurice Ernst

